

Insight Catastrophe Group, LLC and Subsidiaries

**Consolidated Financial Statements
and Supplementary Information**

Years Ended December 31, 2018 and 2017

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Independent Auditors' Report

Members and Board of Directors
Insight Catastrophe Group, LLC and Subsidiaries
Jersey City, New Jersey

We have audited the accompanying consolidated financial statements of Insight Catastrophe Group, LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with GAAP.



Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The following is presented on pages 16 through 20 for the purpose of additional analysis and is not a required part of the basic consolidated financial statements and is collectively referred to as the "Supplementary Schedules":

- Consolidating Balance Sheets as of December 31, 2018 and 2017
- Consolidating Statements of Operations for the years ended December 31, 2018 and 2017
- Consolidating Statement of Changes in Members' Equity for the years ended December 31, 2018 and 2017.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling the Supplementary Information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
June 4, 2019

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,927,195	\$ 2,841,423
Accounts receivable	3,619,482	6,069,602
Other receivable	941,982	-
Note receivable	512,658	-
Prepaid expenses	1,428,246	-
Other current assets	845,691	872,478
Due from related parties	283,544	357,264
Cash held for others	12,845,418	8,046,429
Total current assets	<u>26,404,216</u>	<u>18,187,196</u>
Software development costs, net	4,203,227	2,339,894
Property and equipment, net	1,895,335	1,218,932
Notes receivable - related parties	381,083	969,910
Other noncurrent assets	712,195	663,061
Total assets	<u>\$ 33,596,056</u>	<u>\$ 23,378,993</u>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,161,419	\$ 1,357,058
Commissions and fees payable	4,719,874	3,577,034
Other accrued expenses	866,800	1,388,518
Accrued bonus compensation	2,704,199	1,815,235
Accrued incentive compensation	981,722	236,961
Cash held for others	12,845,418	8,046,429
Deferred revenue	1,958	1,883
Distributions payable	-	1,903,545
Total current liabilities	<u>24,281,390</u>	<u>18,326,663</u>
Accrued bonus compensation, non-current portion	1,328,989	652,224
Distribution payable - unvested	645,661	314,874
Total liabilities	<u>26,256,040</u>	<u>19,293,761</u>
Members' equity:		
Members' equity	6,879,952	3,971,487
Noncontrolling interest	460,064	113,745
Total members' equity	<u>7,340,016</u>	<u>4,085,232</u>
Total liabilities and members' equity	<u>\$ 33,596,056</u>	<u>\$ 23,378,993</u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues, net	<u>\$ 108,660,884</u>	<u>\$ 79,591,965</u>
Operating expenses:		
Commissions	41,190,140	30,842,697
Personnel	26,394,401	20,507,368
Other expenses	7,598,609	4,738,677
Professional fees	4,331,827	3,265,207
Policy processing	265,289	242,831
Program printing	1,382,592	1,068,957
Software licensing	586,387	591,316
Occupancy	810,525	748,234
Software development	2,717,347	2,022,300
Depreciation and amortization	485,099	440,080
	<u>85,762,216</u>	<u>64,467,667</u>
Total operating expenses		
Operating income before stock based compensation	22,898,668	15,124,298
Stock based compensation	<u>22,487</u>	<u>188,894</u>
Operating income	22,876,181	14,935,404
Nonoperating income (expenses):		
Interest income	71,412	18,940
Other income	-	1,490
Interest expense	-	(782)
Other non-operating expense	(291,174)	-
Guaranteed payment expense	<u>(752,481)</u>	<u>(100,000)</u>
Net nonoperating expenses	<u>(972,243)</u>	<u>(80,352)</u>
Net income	21,903,938	14,855,052
Less net income attributable to noncontrolling interest	<u>4,113,872</u>	<u>2,633,585</u>
Net income attributable to controlling interest	<u><u>\$ 17,790,066</u></u>	<u><u>\$ 12,221,467</u></u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2018 and 2017

	Controlling Interest	Noncontrolling Interest	Total
Balance, December 31, 2016	\$ 5,538,128	\$ 811,049	\$ 6,349,177
Member distributions	(13,977,002)	(3,330,889)	(17,307,891)
Stock based compensation	188,894	-	188,894
Net income	12,221,467	2,633,585	14,855,052
Balance, December 31, 2017	3,971,487	113,745	4,085,232
Member distributions	(14,904,088)	(3,767,553)	(18,671,641)
Stock based compensation	22,487	-	22,487
Net income	17,790,066	4,113,872	21,903,938
Balance, December 31, 2018	<u>\$ 6,879,952</u>	<u>\$ 460,064</u>	<u>\$ 7,340,016</u>

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net income	\$ 21,903,938	\$ 14,855,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,593,110	875,618
Stock based compensation	22,487	188,894
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	2,450,120	(1,266,332)
Other receivable	(941,982)	14,265
Prepaid expenses	(1,428,246)	-
Other current assets	26,787	(549,758)
Due to (from) related parties	73,720	(357,264)
Deferred revenue	75	-
Cash held for others	(4,798,989)	(3,745,388)
Other noncurrent assets	(49,134)	(416,116)
Increase (decrease) in operating liabilities:		
Accounts payable	804,361	99,771
Other accrued expenses	(521,718)	940,902
Customer deposits	-	(4,375)
Commissions and fees payable	1,142,840	626,172
Accrued bonus compensation	1,565,729	1,046,632
Accrued incentive compensation	744,761	(756,592)
Cash held for others	4,798,989	3,745,388
Net cash provided by operating activities	<u>27,386,848</u>	<u>15,296,869</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,161,502)	(445,097)
Additions to software development costs	(2,971,344)	(1,991,212)
Collections on installment notes receivable	-	14,850
Funding of note receivable	(512,658)	-
Collection (advance) of notes receivable - related parties, net	588,827	(150,000)
Net cash used in investing activities	<u>(4,056,677)</u>	<u>(2,571,459)</u>
Cash flows from financing activities:		
Distributions payable	(1,903,545)	1,903,545
Distributions payable - unvested	330,787	314,874
Distributions to members	(18,671,641)	(17,307,891)
Payments on obligations under capital lease	-	(23,954)
Net cash used in financing activities	<u>(20,244,399)</u>	<u>(15,113,426)</u>
Cash and cash equivalents, beginning of year	<u>2,841,423</u>	<u>5,229,439</u>
Cash and cash equivalents, end of year	<u>\$ 5,927,195</u>	<u>\$ 2,841,423</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ -</u>	<u>\$ 782</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Insight Catastrophe Group, LLC and Subsidiaries (the “Company”) specializes in providing insurance portfolio management and risk advisory services. Serving the insurance and financial services industries, the Company is dedicated to assisting its clients in achieving superior risk-adjusted returns.

Insight Catastrophe Group, LLC (“ICG”) is the parent company and majority member of SageSure Insurance Managers LLC (“SIM”) and sole member of Insight Catastrophe Managers, LLC (“ICM”). ICG conducts no significant business and has no employees.

SIM, a limited liability company domiciled in the State of Florida, is the largest independent residential property Managing General Underwriter in the United States. SIM develops competitively-priced property insurance products for its highly-rated insurance carrier partners (“Carrier Partner”) and distributes these products through a growing network of insurance agents and brokers.

ICM provides property risk management consulting and proprietary risk management software. Their advanced financial analytics, catastrophe modeling tools and revolutionary policy management system provide clients with a comprehensive solution that includes real-time policy evaluation, financial metrics and capital management capabilities.

SIM operates under an Administrative & Technology Cost Sharing Agreement (the “Agreement”) with ICM. Under the terms of the Agreement, ICM will provide SIM with certain administrative and technology services and shared costs will be allocated in accordance with the Agreement.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of ICG, SIM and ICM (collectively referred to as the Company). The consolidated entities represent companies under common control. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company’s consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The significant accounting policies followed by the Company are summarized below:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Company’s cash and cash equivalents are held at internationally recognized financial institutions insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. In the normal course of business, the Company at times has deposits that exceed insured amounts. As of December 31, 2018, the Company held cash, including cash held for others, in excess of the FDIC limit by \$19,074,767. The Company has a concentration of credit risk since the deposits are in excess of the federally insured limit. The Company mitigates its exposure to losses from these cash deposits by monitoring the financial stability of the financial institutions involved.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Accounts Receivable – Carrier Partner accounts receivable balances are stated at the amount management expects to collect from outstanding balances for commissions earned. Management reviews receivables aged over 90 days for collectability and establishes a reserve if non-collection is considered probable. At December 31, 2018 and 2017, the Company did not record an allowance for doubtful accounts. The Company, in general, does not require collateral when extending credit to policyholders of its Carrier Partners.

Cash Held for Others - The Company maintains bank accounts for the benefit of its Carrier Partners pending final settlement on behalf of policyholders. Policyholders of Carrier Partners make deposits into the accounts. The Company returns premiums to the policyholders on behalf of the Carrier Partners with their approval. Provisional commission payments to the Company are transferred weekly from these accounts for each Carrier Partner. Monthly settlements of commissions due, less provisional payments, are made monthly from the Carrier Partner accounts. The cash in these accounts is reported as cash held for others on the accompanying consolidated balance sheets and is offset by a corresponding liability.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Major renewals and improvements that extend the lives of property and equipment are capitalized, while maintenance and repairs are charged directly to expense as incurred. Upon the disposition of property and equipment, the cost of the asset and the associated accumulated depreciation and amortization is eliminated from the related accounts. Any resulting gain or loss is reported in the consolidated statements of operations.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures	7-10 years
Office equipment and leasehold improvements	5-10 years
Computer equipment and office software	3-5 years

Software Development Costs - The Company internally develops software that is marketed to customers along with related software services, software licensing, and software hosting services as an application service provider. Costs incurred related to the development of software to be licensed prior to technological feasibility are expensed. Under GAAP, once the Company concludes that technological feasibility is obtained, all subsequent development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Amortization is computed on an individual product basis over the estimated economic life of the product, generally three years, using the straight-line method. Costs incurred to maintain the software are expensed as incurred.

The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost for possible impairment. For the years ended December 31, 2018 and 2017, it was determined that impairment was not necessary.

Deferred Revenue - Amounts billed and received prior to the recognition of the related revenue are reflected as deferred revenue in the accompanying consolidated balance sheets.

Stock Based Compensation - The Company accounts for stock based payments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, *Stock-Based Compensation*. Units are provided under the Company's equity-based compensation plan. Shares awarded are measured at the fair value on the grant date. Compensation expense is recognized over the vesting period of the units, with a corresponding increase in common units.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Revenue Recognition - The Company's commission and fee revenue is generated from program management services performed for customers. Commissions are recognized during the month that premiums are written net of refunds for policy cancellations and changes to the cancellation reserve. Profit sharing contingent commissions from Carrier Partners are recognized when the commission amount is determined and acknowledged by the Carrier Partner. The Company also offers specialized risk management consulting and software services performed for various customers. Fee income is recognized when these specialized services are rendered.

The Company has also established a reserve for cancellations, which is included in commissions and fees payable on the accompanying balance sheets. This liability includes estimates of future trends in cancellation frequency and other factors which could vary from actual results. Although it is not possible to measure the degree of variability inherent in such estimates, management believes the cancellation reserve is adequate.

Commissions and Policy Fees - Commissions revenue is recognized at the time of sale and commission expense is recognized when premiums are collected on behalf of the Carrier Partners. Policy fees are nonrefundable except in certain states where proration is required, as the fees are for a one-time service with no ongoing obligations associated for the corresponding policy period. Therefore, policy fee revenue and expense are recognized as earned and incurred.

Income Taxes - The Company is a limited liability company, the income from which is taxable to its individual members. Accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal or state income taxes.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short maturities. The carrying amount of notes receivable approximates fair value as the interest rate on the note is variable, approximating current market rates.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used. Estimates and assumptions are periodically reviewed, and the effects of any material revisions are reflected in the consolidated statements of operations in the period that they are deemed necessary.

Application of Recent and Future Accounting Standards

Revenue Recognition

Accounting Standards update ("ASU") 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers*, issued in May 2014 supersedes the revenue recognition requirements of Topic 605, *Revenue Recognition*, and most industry – specific guidance. The amendment is based on principles that govern the recognition of revenue at an amount to which an entity expects to be entitled when products are transferred to customers. ASU 2015-14 deferred the effective date to the period beginning after December 15, 2018. Subsequently, the FASB has issued the following pronouncements related to ASU 2014-09: ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations*; ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*; ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*; and ASU 2016-20, *Technical Corrections and Improvements to Topic 606*, which clarifies narrow aspects of ASC 606 or corrects unintended application of the guidance. The Company must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 with ASU 2014-09 (collectively, the "new revenue standard"). The Company is currently evaluating the impact of the adoption of this standard on its financial position and results of operations.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*, intended to improve financial reporting about leasing transactions. The core principle of the guidance is that lessees will be required to recognize assets and liabilities on the balance sheet for all leases with terms of more than twelve months. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by the lessor is largely unchanged from current GAAP, with some targeted improvements. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, both lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The amendments are effective for the Company for annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact that the recently issued accounting standard will have on its consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through June 4, 2019, the date the consolidated financial statements were available to be issued, and noted no items that would require adjustments to, or additional disclosures within, the consolidated financial statements.

2. Property and Equipment

Major classifications of property and equipment are summarized as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 733,748	\$ 1,814,824
Leasehold improvements	835,000	276,462
Software – office	279,210	242,370
Furniture and fixtures	883,772	261,955
Office equipment	<u>29,723</u>	<u>29,723</u>
	2,761,453	2,625,334
Less accumulated depreciation	<u>866,118</u>	<u>1,406,402</u>
Property and equipment, net, end of year	<u>\$ 1,895,335</u>	<u>\$ 1,218,932</u>

Depreciation expense was \$485,099 and \$440,080 for the years ended December 31, 2018 and 2017, respectively.

In 2018, the Company disposed of property and equipment which resulted in a loss of \$246,143. The cost of the property disposed of was \$1,271,526 with accumulated depreciation of \$1,025,383.

3. Software Development Costs

Capitalized software development costs included in the accompanying consolidated balance sheets as of December 31:

	<u>2018</u>	<u>2017</u>
Software development costs	\$ 10,261,393	\$ 7,290,049
Less accumulated amortization	<u>6,058,166</u>	<u>4,950,155</u>
Net capitalized software development costs, end of year	<u>\$ 4,203,227</u>	<u>\$ 2,339,894</u>

Amortization expense was \$1,108,011 and \$435,538 for the years ended December 31, 2018 and 2017. The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost to determine if a write-down is necessary.

4. Notes Receivable

Four promissory notes in the principal amount totaling \$699,999 have been executed by SIM. Three of the promissory notes were between SIM and related parties. The additional promissory note was between SIM and a member of SIM. Each note matures the earlier of 1) January 1, 2025 (three promissory notes) and October 12, 2027 (additional promissory note), 2) the day immediately prior to the date that SIM or any of its affiliates file an initial registration statement for an initial public offering, 3) the date of which the makers of the notes employment with SIM or its affiliates terminates, or 4) the sale of all or substantially all of the equity securities or assets of SIM. Interest accrues at 1.75% compounded semi-annually and is due and payable on the maturity date. The principal and interest balances of the notes outstanding as of December 31, 2018 and 2017 totaled \$242,652 and \$732,579, respectively, and are included in notes receivable – related parties on the accompanying balance sheet. No principal or interest was collected on the SIM notes during the years ended December 31, 2018 and 2017.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Three promissory notes in the principal amount totaling \$250,001 have been executed by ICM. All three promissory notes were between ICM and related parties and mature on the earlier of 1) January 1, 2025, July 12, 2026, and October 12, 2027, respectively, 2) the day immediately prior to the date that ICM or any of its affiliates file an initial registration statement for an initial public offering, 3) the date of which the makers of the notes employment with ICM or its affiliates terminates, or 4) the sale of all or substantially all of the equity securities or assets of ICM. Interest accrues at 1.75% compounded semi-annually and is due and payable on the maturity date. The principal and interest balances of the notes outstanding as of December 31, 2018 and 2017 totaled \$138,431 and \$237,331, respectively, and are included in notes receivable – related parties on the accompanying balance sheet. Principal and interest of \$44,761 and \$15,454 was collected on one ICM promissory note during the years ended December 31, 2018 and 2017, respectively.

On July 31, 2018, the Company invested \$500,000 in an unsecured convertible note receivable (the “Note”) with an unrelated foreign entity. The Note pays interest at 6% per annum, which is capitalized and is payable or converted on the conversion date or the redemption date. The Note will be either converted or redeemed at the sole discretion of the majority noteholder, an unrelated entity. During December 2018, the majority noteholder chose to convert, whereby the Company’s Note would follow in conversion. The Company executed an amended Note with a conversion date of March 31, 2019, subject to required re-domestication to the United States by the issuer. As of the date these consolidated financial statements were issued, the Note conversion was pending.

5. Related Party Transactions

At December 31, 2018 and 2017, the Company held receivables from related parties of \$6,949 and \$15,414 included in other noncurrent assets on the accompanying consolidated balance sheets. These amounts have no set repayment terms or interest. At December 31, 2018 and 2017, the Company held receivables due from employees of \$1,463 and \$5,108, which are included in other current assets on the accompanying consolidated balance sheets. At December 31, 2018 and 2017, the Company also held pre-paid deferred compensation funding of \$844,228, and \$0, which are included in other assets on the accompanying consolidated balance sheets.

Amounts totaling \$397,621 and \$52,264 were due to related parties as of December 31, 2018 and 2017, respectively. Amounts totaling \$283,544 and \$357,264 were due from related parties at December 31, 2018 and 2017, respectively. These balances are included in due to related parties and due from related parties, respectively, on the accompanying balance sheets. There is no set repayment terms or interest for these amounts.

At December 31, 2018 and 2017, the Company had distributions payable to members totaling \$5,074 and \$1,903,545, which are included in due to related parties on the accompanying balance sheet.

6. Long-Term Incentive Plan

The Company has long-term incentive plan ("LTIP") agreements with certain key senior level employees. Eligible employees are determined and approved by executive management. Grants are made at management's discretion based on analysis of market compensation, actual performance and long-term retention goals for specific employees.

2013 LTIP

Units were granted for the plan year and are based on revenue targets set for the grant period. Final unit value is predicated on how well the Company performs against cumulative revenue and margin targets over a four-year performance period. Payout occurs as follows:

- 25% vesting and payout at end of the performance cycle
- 25% vesting and payout one year after the end of the performance cycle
- 25% vesting and payout two years after the end of the performance cycle
- 25% vesting and payout three years after the end of the performance cycle

The final disbursements related to the 2013 LTIP plan were made in 2017.

2014-2017 LTIP

The LTIP Pool is based on Total Value created for the Company for the four-year performance period. LTIP value is based on Operating Income and Profit Sharing. Unit grants are based 16 complete quarters and units are awarded to eligible employees based on 1/16 per eligible complete quarters of employment times their allocated units for their paygrade. The payout schedule begins after the four-year performance period results are approved. Payout occurs as follows:

- 60% on or before March 15, 2018
- 20% on January 2, 2019
- 20% on January 2, 2020

The value of units vested at December 31, 2018 and 2017, was \$981,722 and \$1,083,463 respectively, and is included in accrued incentive compensation in the accompanying consolidated balance sheets.

The Company recognized incentive compensation expense of \$20,046 for the year ended December 31, 2018 related to an adjustment of the LTIP accrual. The Company recognized an adjustment of incentive compensation expense of \$209,639 for the year ended December 31, 2017. Incentive compensation expense is included in personnel expenses in the accompanying consolidated statements of operations.

7. Members' Equity

On January 1, 2015, SIM's membership executed an operating agreement which authorized 20,000 zero-par-value membership units for issuance. 10,000 of these units were authorized for issuance as Common Units. 8,090 Common Units are held by ICG and represent an 80.9% equity position in SIM. 1,910 shares are held by a member and represents a 19.1% equity position in SIM. The aforementioned member is also an employee of SIM, and the Common Units are subject to vesting requirements which are further discussed in footnote 8 (Stock Based Compensation).

SIM maintains the right to repurchase the member's units in the event of termination, and the member maintains a right to transfer the units in the case that ICG opts to not repurchase them. If ICG chooses to purchase the units upon the member's termination, a redemption price will be determined based upon SIM's fair value, at the time of termination, at a price determined by an independent party.

Insight Catastrophe Group, LLC and Subsidiaries
Notes to Consolidated Financial Statements

As of December 31, 2016, all non pro-rata distribution requirements were satisfied and all future distributions will be made in accordance with the terms of the operating agreement.

All Common Units have equal rights and profits (losses) are allocated pro-rata based on ownership percentage. Membership units are generally non-transferrable expect under very specific circumstances.

8. Stock Based Compensation

The Company issued 10,000 Common Units effective January 1, 2015, of which 1,910 were granted to a noncontrolling interest. Of the total Common Units issued to the noncontrolling interest, 1,143 vested upon issuance with the remaining 767 Common Units vesting ratably over a period of 114 months, unless certain thresholds are met, which may accelerate vesting in that period.

The Company used a fair value method that encompassed an income approach to determine the fair value of SIM and a discounted cash flows approach for evaluating ongoing operations. Compensation expense related to the vesting of Common Units is based on a \$891 fair market value of each Common Unit as of December 31, 2014.

Compensation expense of \$22,487 and \$188,894 was recognized for the years ended December 31, 2018 and 2017, respectively, and is included in the accompanying consolidated statements of changes in members' equity. No units have been forfeited as of December 31, 2018. Due to certain requirement's being met during 2018, 50% of the additional units vested as of December 31, 2018. If additional requirements are met, additional units will vest based on the Vesting Schedule. A summary of the Common Unit activity for the years ended December 31, 2018 and 2017 is as follows:

Outstanding Common Units at December 31, 2017	1,910
Vested Common Units at December 31, 2016	1,304
Vested in 2017	<u>212</u>
Vested Common Units at December 31, 2017	1,516
Nonvested Units at December 31, 2017	394
 Outstanding Common Units at December 31, 2018	 1,910
Vested Common Units at December 31, 2017	1,516
Vested in 2018	<u>11</u>
Vested Common Units at December 31, 2018	1,527
Nonvested Units at December 31, 2018	383

The Company expects to recognize stock based compensation expense of \$341,806 associated with the vesting of nonvested Common Units through the year ended December 31, 2024.

9. Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick leave, and personal days off. Compensated absences earned during the year are eligible for payout upon termination, while any compensated absences carried over from prior years are not eligible for payout. Therefore, no compensated absences are eligible for future payout at December 31 of any year. Additionally, all employees of the Company are compensated on a salary basis. Management considers that, for these reasons, an accrual for compensated absences is not considered necessary.

10. Defined Contribution Plan

The Company sponsors a profit-sharing and 401(k) deferred compensation employee benefit plan (the Plan). Employees are eligible to participate in the Plan after attaining the age of 21 and 3 months of service with the Company. The Company contributes amounts to the Plan based upon a Safe Harbor Matching policy and also may decide each plan year whether to make a discretionary, non-elective employer contribution on behalf of eligible, active participants. Expense recognized as matching contributions was \$481,028 and \$370,762 in 2018 and 2017, respectively. There were no discretionary contributions made to the Plan during the years ended December 31, 2018 and 2017.

11. Leases

The Company leases various office facilities in Florida, Texas, Connecticut, Ohio, and New Jersey that will expire at various times through 2025. Total rent expense and common charges under the operating leases was \$729,798 and \$662,285 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the future minimum lease payments required under non-cancellable operating leases are presented as follows:

	<u>Operating Leases</u>
2019	\$ 945,938
2020	953,825
2021	961,794
2022	957,815
2023	936,216
Thereafter	<u>2,228,780</u>
Total minimum lease payments	<u>\$ 6,984,368</u>

The Company leased computer equipment and software under capital lease agreements that expired in 2017.

Depreciation and amortization expense related to capital leases was \$0 and \$145,181 for the years ended December 31, 2018 and 2017, respectively.

12. Information About Financial Instruments with Off Balance Sheet Risk, and Significant Customers

Accounts receivable of approximately 98% and 99% were due from one customer at December 31, 2018 and 2017, respectively. This customer accounted for approximately 98% and 97% of revenues derived from program management services for the years ended December 31, 2018 and 2017, respectively.

Supplementary Information

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2018

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 48,083	\$ 5,296,292	\$ 582,820	\$ -	\$ 5,927,195
Accounts receivable	-	3,587,983	31,499	-	3,619,482
Other receivable	-	941,982	-	-	941,982
Note receivable	-	512,658	-	-	512,658
Prepaid expenses	-	747,820	680,426	-	1,428,246
Other current assets	-	541,353	304,338	-	845,691
Due from related parties	9	283,463	402,768	(402,696)	283,544
Cash held for others	-	12,845,418	-	-	12,845,418
Total current assets	48,092	24,756,969	2,001,851	(402,696)	26,404,216
Software development costs, net	-	-	4,203,227	-	4,203,227
Property and equipment, net	-	314,857	1,580,478	-	1,895,335
Investment in subsidiaries	6,839,356	-	-	(6,839,356)	-
Notes receivable - related parties	-	242,652	138,431	-	381,083
Other noncurrent assets	-	146,526	565,669	-	712,195
Total assets	\$ 6,887,448	\$ 25,461,004	\$ 8,489,656	\$ (7,242,052)	\$ 33,596,056
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 2,423	\$ 1,141,656	\$ 1,017,340	\$ -	\$ 2,161,419
Commissions and fees payable	-	4,719,874	-	-	4,719,874
Other accrued expenses	-	298,235	568,565	-	866,800
Accrued bonus compensation	-	1,374,863	1,329,336	-	2,704,199
Accrued incentive compensation	-	299,927	681,795	-	981,722
Cash held for others	-	12,845,418	-	-	12,845,418
Deferred revenue	-	-	1,958	-	1,958
Due to related parties	5,075	397,621	-	(402,696)	-
Total current liabilities	7,498	21,077,594	3,598,994	(402,696)	24,281,390
Accrued bonus compensation, non-current portion	-	1,328,989	-	-	1,328,989
Distribution payable - unvested	-	645,661	-	-	645,661
Total liabilities	\$ 7,498	\$ 23,052,244	\$ 3,598,994	\$ (402,696)	\$ 26,256,040
Members' equity:					
Members' equity	6,879,950	1,948,696	4,890,661	(6,839,356)	6,879,952
Noncontrolling interest	-	460,064	-	-	460,064
Total members' equity	6,879,950	2,408,760	4,890,661	(6,839,356)	7,340,016
Total liabilities and members' equity	\$ 6,887,448	\$ 25,461,004	\$ 8,489,656	\$ (7,242,052)	\$ 33,596,056

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2017

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 5,189	\$ 2,129,267	\$ 706,967	\$ -	\$ 2,841,423
Accounts receivable	-	6,069,602	-	-	6,069,602
Other current assets	-	333,623	538,855	-	872,478
Due from related parties	2,013,733	205,879	52,765	(1,915,113)	357,264
Cash held for others	-	8,046,429	-	-	8,046,429
Total current assets	2,018,922	16,784,800	1,298,587	(1,915,113)	18,187,196
Software development costs, net	-	-	2,339,894	-	2,339,894
Property and equipment, net	-	270,757	948,175	-	1,218,932
Investment in subsidiaries	3,422,104	-	-	(3,422,104)	-
Notes receivable - related parties	-	732,579	237,331	-	969,910
Other noncurrent assets	-	69,812	593,249	-	663,061
Total assets	<u>\$ 5,441,026</u>	<u>\$ 17,857,948</u>	<u>\$ 5,417,236</u>	<u>\$ (5,337,217)</u>	<u>\$ 23,378,993</u>
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 5,800	\$ 802,939	\$ 548,319	\$ -	\$ 1,357,058
Commissions and fees payable	-	3,577,034	-	-	3,577,034
Other accrued expenses	-	308,313	1,080,205	-	1,388,518
Accrued bonus compensation	-	968,733	846,502	-	1,815,235
Accrued incentive compensation	-	236,961	-	-	236,961
Cash held for others	-	8,046,429	-	-	8,046,429
Deferred revenue	-	-	1,883	-	1,883
Other current liabilities	-	-	-	-	-
Distributions payable	1,463,739	2,354,919	-	(1,915,113)	1,903,545
Total current liabilities	1,469,539	16,295,328	2,476,909	(1,915,113)	18,326,663
Accrued bonus compensation, non-current portion	-	652,224	-	-	652,224
Distribution payable - unvested	-	314,874	-	-	314,874
Total liabilities	<u>\$ 1,469,539</u>	<u>\$ 17,262,426</u>	<u>\$ 2,476,909</u>	<u>\$ (1,915,113)</u>	<u>\$ 19,293,761</u>
Members' equity:					
Members' equity	3,971,487	481,777	2,940,327	(3,422,104)	3,971,487
Noncontrolling interest	-	113,745	-	-	113,745
Total members' equity	3,971,487	595,522	2,940,327	(3,422,104)	4,085,232
Total liabilities and members' equity	<u>\$ 5,441,026</u>	<u>\$ 17,857,948</u>	<u>\$ 5,417,236</u>	<u>\$ (5,337,217)</u>	<u>\$ 23,378,993</u>

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2018

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues, net	\$ -	\$ 105,978,119	2,682,765	\$ -	\$ 108,660,884
Operating expenses:					
Commissions	-	41,190,140	-	-	41,190,140
Personnel	-	25,667,521	726,880	-	26,394,401
Other expenses	4,929	7,386,704	206,976	-	7,598,609
Professional fees	39,958	4,254,138	37,731	-	4,331,827
Policy processing	-	265,289	-	-	265,289
Program printing	-	1,382,592	-	-	1,382,592
Software licensing	-	582,379	4,008	-	586,387
Occupancy	-	769,232	41,293	-	810,525
Software development	-	2,559,977	157,370	-	2,717,347
Depreciation and amortization	-	460,393	24,706	-	485,099
Total operating expenses	44,887	84,518,365	1,198,965	-	85,762,216
Operating income (loss) before stock based compensation	(44,887)	21,459,754	1,483,800	-	22,898,668
Stock based compensation	-	22,487	-	-	22,487
Operating income (loss)	(44,887)	21,437,267	1,483,800	-	22,876,181
Nonoperating income (expenses):					
Interest income	-	78,843	(7,431)	-	71,412
Other non-operating expense	(291,174)	-	-	-	(291,174)
Guaranteed payment expense	(752,481)	-	-	-	(752,481)
Equity in earnings of subsidiaries	18,878,608	-	-	(18,878,608)	-
Net nonoperating income (expenses)	17,834,953	78,843	(7,431)	(18,878,608)	(972,243)
Net income	17,790,066	21,516,110	1,476,369	(18,878,608)	21,903,938
Less net income attributable to noncontrolling interest	-	4,113,872	-	-	4,113,872
Net income attributable to controlling interest	\$ 17,790,066	\$ 17,402,238	\$ 1,476,369	\$ (18,878,608)	\$ 17,790,066

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2017

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues, net	\$ -	\$ 76,941,711	\$ 2,650,254	\$ -	\$ 79,591,965
Operating expenses:					
Commissions	-	30,842,697	-	-	30,842,697
Personnel	-	19,701,497	805,871	-	20,507,368
Other expenses	42,544	4,534,819	161,314	-	4,738,677
Professional fees	(2,046)	3,216,030	51,223	-	3,265,207
Policy processing	-	242,831	-	-	242,831
Program printing	-	1,068,957	-	-	1,068,957
Software licensing	-	584,966	6,350	-	591,316
Occupancy	-	697,723	50,511	-	748,234
Software development	-	1,871,507	150,793	-	2,022,300
Depreciation and amortization	-	407,712	32,368	-	440,080
Total operating expenses	40,498	63,168,739	1,258,430	-	64,467,667
Operating income (loss) before stock based compensation	(40,498)	13,772,972	1,391,824	-	15,124,298
Stock based compensation	-	188,894	-	-	188,894
Operating income (loss)	(40,498)	13,584,078	1,391,824	-	14,935,404
Nonoperating income (expenses):					
Interest income	84	15,432	3,424	-	18,940
Other income	1,490	-	-	-	1,490
Interest expense	-	-	(782)	-	(782)
Guaranteed payment expense	(100,000)	-	-	-	-
Equity in earnings of subsidiaries	12,360,391	-	-	(12,360,391)	-
Net nonoperating income (expenses)	12,161,965	15,432	2,642	(12,360,391)	(80,352)
Net income	12,121,467	13,599,510	1,394,466	(12,360,391)	14,855,052
Less net income attributable to noncontrolling interest	-	2,633,585	-	-	2,633,585
Net income attributable to controlling interest	\$ 12,121,467	\$ 10,965,925	\$ 1,394,466	\$ (12,360,391)	\$ 12,221,467

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Changes in Members' Equity
Years Ended December 31, 2018 and 2017

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC		Insight Catastrophe Managers, LLC	Eliminations	Consolidated
		Controlling Interest	Noncontrolling Interest			
Balance, December 31, 2016	\$ 5,538,128	\$ 3,435,279	\$ 811,049	\$ 1,626,585	\$ (5,061,864)	\$ 6,349,177
Transfers in (out)	80,724	-	-	(80,724)	-	-
Member distributions	(13,868,832)	(14,108,321)	(3,330,889)	-	14,000,151	(17,307,891)
Stock based compensation	-	188,894	-	-	-	188,894
Net income	12,221,467	10,965,925	2,633,585	1,394,466	(12,360,391)	14,855,052
Balance, December 31, 2017	3,971,487	481,777	113,745	2,940,327	(3,422,104)	4,085,232
Transfers in (out)	316,035	-	-	(316,035)	-	-
Member distributions	(15,197,638)	(15,957,806)	(3,767,553)	790,000	15,461,356	(18,671,641)
Stock based compensation	-	22,487	-	-	-	22,487
Net income	17,790,066	17,402,238	4,113,872	1,476,369	(18,878,608)	21,903,938
Balance, December 31, 2018	<u>\$ 6,879,950</u>	<u>\$ 1,948,696</u>	<u>\$ 460,064</u>	<u>\$ 4,890,661</u>	<u>\$ (6,839,356)</u>	<u>\$ 7,340,016</u>

See independent auditors' report on supplementary information.